

**11. RELATED PARTY TRANSACTIONS/CONFLICT OF INTEREST****11.1 INTEREST IN SIMILAR BUSINESS**

None of the Directors or substantial shareholders of the Company or its subsidiary companies has any interest, direct or indirect, in any business carrying on a similar trade as the Company or its subsidiary companies.

**11.2 EXISTING OR PROPOSED RELATED-PARTY TRANSACTIONS WITH DIRECTORS, SUBSTANTIAL SHAREHOLDERS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL**

In the normal course of businesses, MMSB and its wholly-owned subsidiary DC Power enters into recurrent related party transactions of a revenue or trading nature with CIE and AKL. The recurrent related party transactions are entered into at arms' length based on the Mexter Group's normal commercial terms. The estimate aggregate value of recurrent related party transactions which have taken place from the nine (9)-month period ended 30 September 2004 up to the Latest Practicable Date, are as follows:-

<b>Nature of the transaction</b>	<b>Seller/ Provider</b>	<b>Purchaser/ Recipient</b>	<b>Value (RM'000)</b>
Supply of industrial automation components	AKL	MMSB	66
Supply of industrial automation components	AKL	Mexter MSC	42
Supply of industrial automation components	MMSB	Mexter MSC	194
Management fees	AKL	DC Power	125
Rental of office space	MMSB	CIE	4

The Directors of Mexter will ensure that any recurrent related party transactions carried out are not prejudicial to shareholders nor on terms more favourable to the related parties than those generally available to the other customers/suppliers and are also not to the detriment of the minority shareholders.

Save as disclosed above, there have been no on-going or proposed related party transactions or contracts or arrangements between the Group and its Directors and/or substantial shareholders and/or key management and/or key technical personnel.

**11.3 TRANSACTIONS THAT ARE UNUSUAL IN THEIR NATURE OR CONDITIONS**

There are no transactions that are unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which the Group was a party in respect of the past one (1) financial year ended 31 December 2003 and the subsequent financial period thereof, immediately preceding the date of this Prospectus.

**11.4 OUTSTANDING LOANS MADE BY THE MEXTER GROUP TO OR FOR THE BENEFIT OF RELATED PARTIES**

As at the date of this Prospectus, there are no outstanding loans, including guarantees of any kind, made by the Mexter Group to or for the benefit of the related parties.

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**11. RELATED PARTY TRANSACTIONS/CONFLICT OF INTEREST (Cont'd)**

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**11.5 PROMOTION OF ANY MATERIAL ASSETS**

Save as disclosed below, none of the Directors or substantial shareholders of the Company has any interest, direct or indirect, in the promotion of or in any assets which have, within the two (2) years preceding the date of this Prospectus, been acquired or proposed to be acquired or disposed of or proposed to be disposed of or leased to or proposed to be leased to the Company or its subsidiary and associates companies, or in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to the business of the Company and its subsidiary and associated companies taken as a whole.

**MMSB Acquisition**

Save as disclosed in Section 6.3 of this Prospectus, the Promoters and Mexter entered into a conditional sale and purchase agreement dated 28 April 2004 for the purchase by Mexter of the entire issued and paid-up share capital of MMSB comprising 350,000 shares of RM1.00 from the Promoters for a total consideration of RM5,461,000 to be satisfied by the issuance of 5,461,000 new ordinary shares of RM1.00 each in Mexter at an issue price of RM1.00 per share.

**11.6 DECLARATION BY EXPERTS**

Alliance hereby confirms that there is no existing or potential conflict of interests in its capacity as the Adviser, Sponsor, Underwriter and Placement Agent.

Messrs. KPMG confirms that there is no existing or potential conflict of interests in its capacity as the Auditors/Reporting Accountants.

Messrs. Jin & Co. confirms that there is no existing or potential conflict of interests in its capacity as the due diligence solicitors.

Frost & Sullivan confirms that there is no existing or potential conflict of interests in its capacity as the Independent Market Research Company.

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12. DIRECTORS' REPORT



**MEXTER TECHNOLOGY BHD**  
e-Manufacturing & Automation (647673-A)

*(Prepared for inclusion in this Prospectus)*

**Registered Office:**  
Suite 17.06(B)  
17<sup>th</sup> Floor, Menara MAA  
No. 12 Jalan Dewan Bahasa  
50460 Kuala Lumpur

Date: **15 MAR 2005**

**THE SHAREHOLDERS OF MEXTER TECHNOLOGY BERHAD**

Dear Sir/Madam

On behalf of the Board of Directors of Mexter Technology Berhad ("Mexter" or the "Company"), I report that, after making due enquiries in relation to the interval between 30 September 2004, being the date to which the last audited financial statements of the Company and its subsidiaries and associated company ("Mexter Group") have been made up, and the date hereof, being a date not earlier than fourteen (14) days before the issue of this Prospectus:-

- (a) the business of the Mexter Group has, in the opinion of the Board of Directors of Mexter, been satisfactorily maintained;
- (b) in the opinion of the Board of Directors of Mexter, no circumstances have arisen since the last audited financial statements of the Mexter Group which have adversely affected the trading or the value of the assets of the Mexter Group;
- (c) the current assets of the Mexter Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Mexter Group;
- (e) the Board of Directors of Mexter are not aware of any default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings of the Mexter Group since the last audited financial statements of the Mexter Group; and
- (f) save as disclosed in the Accountants' Report and the Proforma Consolidated Balance Sheets as set out in Sections 13 and 5.4 of this Prospectus, there have been no material changes in the published reserves or any unusual factors affecting the profits of the Mexter Group since the last audited financial statements of the Mexter Group.

Yours faithfully  
For and on behalf of the Board of Directors of  
**Mexter Technology Berhad**



**Ivan Sia Teck Fatt**  
Managing Director

13. ACCOUNTANTS' REPORT



**KPMG (Firm No. AF 0758)**  
Chartered Accountants  
179-3, Jalan Munshi Abdullah  
75100 Melaka, Malaysia

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The Board of Directors  
Mexter Technology Berhad  
Suite 17.06 (B)  
17<sup>th</sup> Floor, Menara MAA  
No. 12, Jalan Dewan Bahasa  
50460 Kuala Lumpur

15 MAR 2005

Dear Sirs

**Accountants' Report**

This report has been prepared by Messrs KPMG, an approved company auditor, for inclusion in the Prospectus to be dated ... 23 MAR 2005 ... in connection with:

- i) the public issue of 34,842,000 new ordinary shares of RM0.10 each in Mexter Technology Berhad (hereinafter referred to as "Mexter " or "the Company") at an issue price of RM0.40 per ordinary share payable in full upon application comprising:
  - a) 3,000,000 new ordinary shares of RM0.10 each available for application by the Malaysian public;
  - b) 25,217,000 new ordinary shares of RM0.10 each available by way of private placement to identified investors; and
  - c) 6,625,000 new ordinary shares of RM0.10 each available for application by eligible Directors, employees and business associates of Mexter and its subsidiaries ("Mexter Group" or "Group").

and,

- ii) the listing of and quotation for the entire issued and paid-up share capital of Mexter on the Malaysian Exchange of Securities Dealing & Automated Quotation Berhad ("MESDAQ") market of the Bursa Malaysia Securities Berhad ("BMSB").



## **1 General information**

### **1.1 Background**

Mexter was incorporated in Malaysia on 2 April 2004 as a public limited company under the Companies Act, 1965. The principal activity of Mexter is that of investment holding.

### **1.2 Restructuring and listing scheme**

In conjunction with the listing of and quotation for the entire enlarged issued and paid-up share capital of Mexter on the MESDAQ market of BMSB, Mexter undertook the restructuring scheme as stated in paragraph 1.2.1 and 1.2.2 and is now undertaking the listing scheme as stated in paragraph 1.2.3. The restructuring and listing scheme involved the following exercises:

#### **1.2.1 Acquisitions**

##### **i) Acquisition of Mexter (M) Sdn. Bhd. ("MMSB")**

Acquisition of the entire issued and paid-up share capital of the MMSB comprising 350,000 ordinary shares of RM1.00 each for a total purchase consideration of RM5,461,000. The purchase consideration was satisfied by the issuance of 5,461,000 new ordinary shares of RM1.00 each in Mexter at an issue price of RM1.00 per ordinary share credited as fully paid.

The purchase consideration of RM5,461,000 was determined based on the audited shareholders' funds of MMSB as at 31 December 2003 of RM5,461,000.

##### **ii) Acquisition of Mexter MSC Sdn. Bhd. ("Mexter MSC")**

Acquisition of the entire issued and paid-up share capital of Mexter MSC comprising two (2) ordinary shares of RM1.00 each for a total cash consideration of RM1,838,000 based on the audited shareholders' funds of Mexter MSC as at 31 December 2003.

##### **iii) Acquisition of CIE Automation (M) Sdn. Bhd. ("CIE")**

Acquisition of the 64.70% of the issued and paid-up share capital of CIE comprising 170,002 ordinary shares of RM1.00 each for a total cash consideration of RM1,700 based on the audited net tangible assets (NTA) of CIE as at 31 December 2003.

##### **iv) Acquisition of Advantech Control (M) Sdn. Bhd. ("AKL")**

Acquisition of the 45% of the issued and paid-up share capital of AKL comprising 760,000 ordinary shares of RM1.00 each for a total cash consideration of RM669,890 based on the audited net tangible assets (NTA) of AKL as at 31 December 2003.





### **1.2.2 Share split**

Share split of one (1) Mexter ordinary share of RM1.00 each into ten (10) Mexter ordinary shares of RM0.10 each, by way of sub-division of the par value of existing ordinary shares in Mexter.

Upon completion of the share split, the issued and paid-up share capital of Mexter changed from RM5,461,002 comprising 5,461,002 ordinary shares of RM1.00 each to RM5,461,002 comprising 54,610,020 ordinary shares of RM0.10 each in Mexter.

### **1.2.3 Public Issue**

Mexter is now undertaking a public issue of 34,842,000 new ordinary shares of RM0.10 at an issue price of RM0.40 per ordinary share payable in full upon application comprising:

- a) 3,000,000 new ordinary shares of RM0.10 each available for application by the Malaysian public;
- b) 25,217,000 new ordinary shares of RM0.10 each available by way of placement to identified investors; and
- c) 6,625,000 new ordinary shares of RM0.10 each available for application by Directors, employees and business associates of the Mexter Group.

### **1.2.4 Employees' Share Option Scheme ("ESOS")**

Establishment of an ESOS of up to 26,835,000 new ordinary shares RM0.10 each in Mexter representing 30% of the issued and paid-up share capital of Mexter for the benefit of Executive Directors and eligible employees of the Mexter Group.

## 13. ACCOUNTANTS' REPORT (Cont'd)



*Mexter Technology Berhad*  
Accountants' Report

### 1.3 Share Capital

At the date of incorporation, Mexter's authorised share capital was RM100,000 comprising 100,000 ordinary shares of RM1.00 each and its issued and paid-up share capital was RM2.00 consisting of two (2) ordinary shares of RM1.00 each.

Pursuant to the restructuring and listing scheme, including the listing of and quotation for the entire issued and paid-up share capital of Mexter on the MESDAQ market as set out below, the issued and fully paid-up share capital of Mexter will be increased to RM8,945,202 comprising 89,452,020 ordinary shares of RM0.10 each as shown below:

Date of allotment	Number of ordinary shares	Issue price per ordinary share RM	Purpose	Total issued and paid-up share capital RM
Upon incorporation	2*	1.00	Subscribers' shares	2
31 January 2005	5,461,000*	1.00	Pursuant to the acquisition of MMSB	5,461,002
2 February 2005	54,610,020**	0.10	Shares split of RM1.00 each into shares of RM0.10 each	5,461,002
To be allotted	34,842,000**	0.40	Public Issue	8,945,202

\* Par value of RM1.00

\*\* Par value of RM0.10

## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
Accountants' Report

## 1.4 Information on the subsidiaries and associate

### 1.4.1 Subsidiaries

The Mexter Group comprises Mexter and the following subsidiaries, all of which are incorporated in Malaysia as private limited companies under the Companies Act, 1965, other than Mexter (S) Pte. Ltd. ("MSPL"), which was incorporated in Singapore. The subsidiaries and their principal activities are as follows:

Subsidiaries	Date of incorporation	Authorised capital RM	Issued and paid-up capital RM	Effective equity interest %	Principal activity
MMSB	14.08.1992	500,000	350,000	100	Provision of IT ("Information Technology") solutions and IT outsourcing services
Mexter MSC	08.11.2002	100,000	2	100	Performing R&D and the provision of e-manufacturing and MPM systems, which consist of a combination of software programs and hardware systems
CIE	13.10.2000	500,000	170,002	64.70	Provision of IT solutions and IT outsourcing services
Subsidiaries of MMSB					
DC Power (M) Sdn. Bhd. ("DC Power")	29.11.1994	500,000	360,004	100	Management consulting and information technology consulting services
MSPL	26.05.2001	*220,000	*220,000	99.99	Provision of IT solutions and IT outsourcing services

\* Exchange rate used is SGD1 = RM2.20

- Note: i) All the subsidiaries are incorporated in Malaysia except for MSPL, which was incorporated in Singapore.
- ii) DC Power was incorporated on 29 November 1994 as a private limited company under the name of Mexter Manufacturing (M) Sdn. Bhd.. It subsequently changed and assumed its present name on 3 February 1999.



## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
Accountants' Report

## 1.4.1 Associate

The details of the associate, which was incorporated in Malaysia, are as follows:

Company	Date of incorporation	Authorised capital RM	Issued and paid-up capital RM	Effective equity interest %	Principal activity
AKL	10.04.2000	1,000,000	760,002	45	Provision of IT solution covering automation systems, networked and embedded computing devices

## 1.5 Dividends

1.5.1 Mexter has not paid or declared any dividends since its incorporation on 2 April 2004.

1.5.2 Except as detailed below, the subsidiaries have not paid or declared dividends for the financial years/periods under review: -

Financial year/ period ended	Company	Issued and paid up share capital of RM1.00 each	Gross dividend rate	Net dividend RM
31 July 1999	MMSB	350,000	19.84% less tax at 28%	50,000
31 July 2000	MMSB	350,000	78.08% less tax at 28%	196,762
31 December 2001	MMSB	350,000	77.70% tax exempt	271,951
31 December 2003	MMSB	350,000	205.14% tax exempt	717,500
30 September 2004	MMSB	350,000	123.14% tax exempt 734.00% less tax at 28%	431,000 1,849,000
				2,280,000



## **1.6 Basis of accounting and accounting policies**

The financial statements included in this report are based on the audited financial statements of the companies in the Mexter Group, which have been prepared in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia issued by the Malaysian Accounting Standards Board ("MASB"). This report is presented on a basis consistent with the accounting policies adopted by MMSB, save for the adoption of the merger method of accounting for the acquisition of MMSB as the basis of consolidation.

## **1.7 Financial statements and auditors**

The financial year end of all the companies is 31 December. Another firm of accountants audited the financial statements of MSPL for the period/years ended 31 December 2001 to 2003 and period ended 30 September 2004. KPMG were the auditors of all the other companies for the financial years ended 31 December 1999 (since incorporation for CIE and Mexter MSC) to period ended 30 September 2004.

The auditors' reports of all the companies for the financial period/years under review were not subject to any modification or qualification except for the auditors' report of MSPL, which had an emphasis of matter on the going concern basis of preparation of its financial statements.

## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
Accountants' Report

## 2 Financial performance

We set out below the summarised proforma consolidated results of Mexter Group for the five (5) financial years ended 31 December 1999 to 2003 and for the nine (9) month period ended 30 September 2004 on the assumption that the Mexter Group had been in existence throughout the years/period under review. The following results are to be read in conjunction with the notes thereon.

### 2.1 The Mexter Group – Proforma consolidated results

The following results are to be read in conjunction with the notes thereto:-

	< ----- Year ended 31 December----- >					9 month period ended 30 September 2004
	1999	2000	2001	2002	2003	September 2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	8,902	11,363	13,231	9,372	11,153	10,128
Profit before interest, depreciation, tax and amortisation	1,199	1,828	2,307	1,076	1,372	3,537
Net interest expense	(30)	(24)	(24)	(37)	(27)	(35)
Depreciation	(74)	(85)	(101)	(143)	(169)	(148)
Amortisation of goodwill	-	-	(7)	(32)	(52)	-
Amortisation of software development costs	-	-	-	-	-	(88)
Impairment loss on goodwill	-	-	-	-	(163)	-
Share of profits of AKL	-	-	135	176	220	124
Profit before taxation	1,095	1,719	2,310	1,040	1,181	3,390
Tax expense						
- Mexter and subsidiaries	(145)	(468)	(642)	(187)	(29)	(68)
- Associate	-	-	(58)	(70)	(54)	(55)
	(145)	(468)	(700)	(257)	(83)	(123)
Profit after taxation	950	1,251	1,610	783	1,098	3,267
Minority interest	-	-	(6)	37	27	1
Profit after taxation and minority interest	950	1,251	1,604	820	1,125	3,268

## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
Accountants' Report

## 2.1 The Mexter Group – Proforma consolidated results (continue)

	< ----- Year ended 31 December ----- >					9 month period ended 30
	1999	2000	2001	2002	2003	September 2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
No. of ordinary shares of RM0.10 each assumed in issue ('000) <sup>1</sup>	54,610	54,610	54,610	54,610	54,610	54,610
Earnings per ordinary share of RM0.10 each (sen)						
- Gross	2.01	3.15	4.23	1.90	2.16	6.21
- Net	1.74	2.29	2.94	1.50	2.06	5.98

<sup>1</sup> Based on the number of ordinary shares of RM0.10 each in Mexter assumed in issue after the completion of the acquisition of MMSB, Mexter MSC, CIE and AKL and the share split but before the Public Issue.

### 2.1.1 Notes to the proforma consolidated results

(i) Basis of Accounting

The proforma consolidated results of the Mexter Group for the past five (5) years ended 31 December 2003 and for the nine (9) month period ended 30 September 2004 have been prepared in compliance with applicable approved accounting standards in Malaysia. This report is presented on a basis consistent with the accounting policies normally adopted by MMSB, save for the adoption of the merger method of accounting for the acquisition of MMSB as the basis of consolidation for the purpose of the proforma consolidated results.

(ii) Basis of consolidation

The proforma consolidated results of the Mexter Group are prepared for illustrative purposes only and are based on the audited financial statements of Mexter, MMSB, Mexter MSC, DC Power, CIE and MSPL and on the assumption that the Group had been in existence throughout the financial years/period under review.

The financial year end of the Mexter Group is 31 December. MMSB's financial year end for the FYE 1999 and FYE 2000 were at 31 July. In FYE 2001, MMSB changed its financial year end from 31 July to 31 December 2001, thereby reporting results of seventeen (17) months. As such, the results of MMSB have been adjusted based on time apportionment for the relevant years under review to be coterminous with the financial year end of 31 December.

## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
Accountants' Report

## 2.1.1 Notes to the proforma consolidated results (continue)

## (iii) Earnings per share (EPS)

The gross and net earnings per share are calculated based on the profit before and after taxation attributable to the shareholders of Mexter respectively. Mexter has issued and paid-up share capital of RM5,461,002 comprising 54,610,020 ordinary shares of RM0.10 each pursuant to the restructuring scheme as mentioned in Paragraph 1.2 above.

## 2.2 Mexter Technology Berhad ("Mexter")

The following financial information of Mexter is based on the audited financial statements of Mexter for the financial period from 2 April 2004 (date of incorporation) to 30 September 2004.

## 2.2.1 Summary of results

	2.4.2004 to 30.9.2004 RM'000
Revenue	-
Loss before depreciation	(3)
Depreciation	-
Loss before taxation	(3)
Tax expense	-
Loss after taxation	(3)
No. of ordinary shares of RM1.00 each	2
Loss per ordinary share of RM1.00 each (RM)	
- Gross	(1,500)
- Net	(1,500)

**Note:-**

- i) There were no extraordinary or exceptional items in the period under review.
- ii) There was no income tax expense for the period ended 30 September 2004 as Mexter was in a loss position.

## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
Accountants' Report

## 2.2.2 Summarised balance sheets

	30.9.2004 RM'000
Current assets	311
Current liabilities	(314)
Net current liabilities	(3)
	(3)
<b>Financed by:</b>	
Share capital	..*
Accumulated loss	(3)
Deficit in shareholders' funds	(3)
	(3)
* denotes RM2	
No. of ordinary shares of RM1.00 each	2
Net tangible liabilities ("NTL") per ordinary share of RM1.00 each (RM)	(1,500)



## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
Accountants' Report

### 2.3 Mexter (M) Sdn. Bhd. ("MMSB")

The following financial information of MMSB is based on the audited financial statements of MMSB.

#### 2.3.1 Summary of results

	Year ended <---31 July--->		17 month period ended	Year ended <-31 December->		9 months period ended
	1999 RM'000	2000 RM'000	31.12.2001 RM'000	2002 RM'000	2003 RM'000	30.9.2004 RM'000
Revenue	7,886	10,243	18,196	9,127	10,149	4,859
Profit before depreciation and interest	1,030	1,428	3,394	744	40	251
Depreciation	(71)	(78)	(133)	(141)	(144)	(125)
Interest expense	(37)	(25)	(38)	(40)	(32)	(32)
Interest income	4	-	5	6	9	1
Profit/(Loss) before taxation	926	1,325	3,228	569	(127)	95
Tax expense	-	(347)	(900)	(182)	(9)	(37)
Profit/(Loss) after taxation	926	978	2,328	387	(136)	58
No. of ordinary shares of RM1.00 each ('000)	350	350	350	350	350	350
(Loss)/Earnings per ordinary share of RM1.00 each (RM)						
- Gross	2.65	3.79	9.22	1.63	(0.36)	0.27
- Net	2.65	2.79	6.65	1.11	(0.39)	0.17

## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
Accountants' Report

## 2.3.1 Summary of results ("continued")

## Note:-

- i) There were no extraordinary or exceptional items in the years/period under review.
- ii) There was no income tax expense for FYE 1999 as all income was waived from tax pursuant to the Income Tax (Amendment) Act, 1999, which was gazetted on 8 July 1999.

## 2.3.2 Summarised balance sheets

	<-----31 July----->		<-----31 December----->			
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	30.9.2004 RM'000
Property, plant and equipment	673	682	1,155	1,042	1,020	1,300
Investment in subsidiaries	-	-	470	690	690	690
Current assets	2,065	2,867	4,813	5,487	5,550	4,435
Current liabilities	(1,248)	(1,281)	(1,837)	(2,338)	(3,220)	(4,797)
Net current assets/ (liabilities)	817	1,586	2,976	3,149	2,330	(362)
	1,490	2,268	4,601	4,881	4,040	1,628
<b>Financed by:</b>						
Share capital	350	350	350	350	350	350
Reserves	946	1,727	3,783	4,170	3,316	1,094
Shareholders' funds	1,296	2,077	4,133	4,520	3,666	1,444
Long term and deferred liabilities	194	191	468	361	374	184
	1,490	2,268	4,601	4,881	4,040	1,628
No. of ordinary shares of RM1.00 each ('000)	350	350	350	350	350	350
Net tangible assets ("NTA") per ordinary share of RM1.00 each (RM)	3.70	5.93	11.81	12.91	10.47	4.12



Mexter Technology Berhad  
Accountants' Report

## 2.4 Mexter MSC Sdn. Bhd. ("Mexter MSC")

The following financial information of Mexter MSC is based on the audited financial statements of Mexter MSC for the financial period from 8 November 2002 (date of incorporation) to 31 December 2003 and for the nine (9) month period ended 30 September 2004.

### 2.4.1 Summary of results

	8.11.2002 to 31.12.2003 RM'000	9 month period ended 30.9.2004 RM'000
Revenue	2,421	5,644
Profit before depreciation and amortisation	1,840	3,280
Depreciation	(2)	(4)
Amortisation of software development costs	-	(88)
Profit before taxation	1,838	3,188
Tax expense	-	(34)
Profit after taxation	1,838	3,154
No. of ordinary shares of RM1.00 each	2	2
Earnings per ordinary share of RM1.00 each (RM)		
- Gross	919,000	1,594,000
- Net	919,000	1,577,000

**Note:-**

- i) There were no extraordinary or exceptional items in the period under review.
- ii) Mexter MSC was granted Multimedia Super Corridor ("MSC") status by the Multimedia Development Corporation Sdn. Bhd. ("MDC") on 29 November 2002.

By virtue of its MSC status, the Ministry of International Trade and Industry under the Promotion of Investments Act, 1986, granted Mexter MSC pioneer status for a period of five (5) years. Upon expiration of the pioneer status period, Mexter MSC has the option to renew its status for another five (5) years.

Accordingly, Mexter MSC's statutory income is exempted from tax. The MSC status granted to Mexter MSC is subject to Mexter MSC's continuous compliance with the conditions as set out by the MDC.

## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
Accountants' Report

## 2.4.2 Summarised balance sheets

	31.12.2003 RM'000	30.9.2004 RM'000
Property, plant and equipment	16	95
Intangible assets	200	501
Current assets	2,260	5,396
Current liabilities	(638)	(966)
Net current assets	1,622	4,430
	1,838	5,026
<b>Financed by:</b>		
Share capital	*	*
Reserves	1,838	4,992
Shareholders' funds	1,838	4,992
Long term and deferred liabilities	-	34
	1,838	5,026
* denotes RM2		
No. of ordinary shares of RM1.00 each	2	2
Net tangible assets ("NTA") per ordinary share of RM1.00 each (RM)	819,000	2,246,000

## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
Accountants' Report

## 2.5 DC Power (M) Sdn. Bhd. ("DC Power")

The following financial information of DC Power is based on the audited financial statements of DC Power for the financial years ended 31 December 1999 to 2003 and for the nine (9) month period ended 30 September 2004.

### 2.5.1 Summary of results

	<----- Year ended 31 December ----->					9 month period ended
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	30.9.2004 RM'000
Revenue	49	55	-	245	659	100
Profit/(Loss) before depreciation and interest	4	-	(3)	33	32	1
Depreciation	-	-	-	-	(21)	(18)
Interest expense	-	-	-	-	(4)	(4)
Profit/(Loss) before taxation	4	-	(3)	33	7	(21)
Tax expense	-	(1)	-	(8)	(6)	3
Profit/(Loss) after taxation	4	(1)	(3)	25	1	(18)
No. of ordinary shares of RM1.00 each ('000)	*	360	360	360	360	360
(Loss)/Earnings per ordinary share of RM1.00 each (RM)						
- Gross	1,000	-	(0.01)	0.09	0.02	(0.06)
- Net	1,000	-	(0.01)	0.07	-	(0.05)

\* denotes RM4

**Note:-**

- i) There were no extraordinary or exceptional items in the years/period under review.
- ii) There was no tax expense for FYE 1999 as all income was waived from tax pursuant to the Income Tax (Amendment) Act, 1999, which was gazetted on 8 July 1999.

## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
Accountants' Report

## 2.5.2 Summarised balance sheets

	←----- 31 December ----->					
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	30.9.2004 RM'000
Property, plant and equipment	-	-	-	-	127	110
Investment in associate	-	342	342	342	342	342
Current assets	49	24	19	262	860	328
Current liabilities	(45)	(3)	(1)	(219)	(858)	(349)
Net current assets/ (liabilities)	4	21	18	43	2	(21)
	4	363	360	385	471	431
<b>Financed by:</b>						
Share capital	-*	360	360	360	360	360
Reserves	4	3	-**	25	26	8
Shareholders' funds	4	363	360	385	386	368
Long term and deferred liabilities	-	-	-	-	85	63
	4	363	360	385	471	431
No. of ordinary shares of RM1.00 each ('000)	-*	360	360	360	360	360
Net tangible assets ("NTA") per ordinary share (RM)	1,000	1.01	1.00	1.07	1.07	1.02

\* denotes RM4

\*\* denotes RM229



## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
Accountants' Report

## 2.6 CIE Automation (M) Sdn. Bhd. ("CIE")

The following financial information of CIE is based on the audited financial statements of CIE for the financial years ended 31 December 2001 to 2003 and for the nine (9) month period ended 30 September 2004.

### 2.6.1 Summary of results

	<---Year ended 31 December--->			9 month period ended
	2001	2002	2003	30.9.2004
	RM'000	RM'000	RM'000	RM'000
Revenue	710	-	22	99
Profit before depreciation	23	(95)	(75)	(5)
Depreciation	-	(1)	(1)	(1)
Profit/(Loss) before taxation	23	(96)	(76)	(6)
Tax expense	(7)	(11)	-	-
Profit/(Loss) after taxation	16	(107)	(76)	(6)
No. of ordinary shares of RM1.00 each ('000)	170	170	170	170
(Loss)/Earnings per ordinary share of RM1.00 each (RM)				
- Gross	0.14	(0.56)	(0.45)	(0.03)
- Net	0.09	(0.63)	(0.45)	(0.03)

**Note:-**

- i) There were no extraordinary or exceptional items in the years/period under review. There was no revenue in FYE 2002 due to no new projects secured.

## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
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## 2.6.2 Summarised balance sheets

	<----- 31 December ----->			
	2001	2002	2003	30.9.2004
	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	9	11	10	9
Current assets	546	230	108	145
Current liabilities	(368)	(162)	(115)	(157)
Net current assets/(liabilities)	178	68	(7)	(12)
	187	79	3	(3)
<b>Financed by:</b>				
Share capital	170	170	170	170
Unappropriated profits/ (Accumulated losses)	16	(91)	(167)	(173)
Shareholders' funds	186	79	3	(3)
Long term and deferred liabilities	1	-	-	-
	187	79	3	(3)
No. of ordinary shares of RM1.00 each ('000)	170	170	170	170
Net tangible assets/(liabilities) per ordinary share (RM)	1.09	0.46	0.02	(0.02)

## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
Accountants' Report

## 2.7 Mexter (S) Pte. Ltd. ("MSPL")

The following financial information of MSPL was based on the audited financial statements of MSPL for the financial period from 26 May 2001 (date of incorporation) to 31 December 2001, financial years ended 31 December 2002 to 2003 and for the nine (9) month period ended 30 September 2004. The financial statements of MSPL are stated in Singapore Dollars (SGD) and these amounts have been translated into Ringgit Malaysia at the foreign exchange rates ruling at 30 September 2004 at SGD1 = RM2.20 for the purpose of this report.

### 2.7.1 Summary of results

	26.5.2001 to 31.12.2001 RM'000	Year ended <-----31 December-----> 2002 RM'000	2003 RM'000	9 month period ended 30.9.2004 RM'000
Revenue	22	24	203	50
(Loss)/Profit before depreciation and interest	(118)	(171)	10	10
Depreciation	(7)	(1)	(1)	-
Interest expense	(1)	(3)	-	-
(Loss)/Profit before taxation	(126)	(175)	9	10
Tax expense	-	-	-	-
(Loss)/Profit after taxation	(126)	(175)	9	10
No. of ordinary shares of SGD1.00 each ('000)	-*	220	220	220
(Loss)/Earnings per share (RM)				
- Gross	(63,000)	(0.80)	0.04	0.05
- Net	(63,000)	(0.80)	0.04	0.05
Exchange rate used in translation of income statement – 1 SGD	2.20	2.20	2.20	2.20

**Note:-**

- i) There were no extraordinary or exceptional items in the years/period under review.

## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
Accountants' Report

## 2.7.2 Summarised balance sheets

	<----- 31 December ----->			
	2001	2002	2003	30.9.2004
	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	103	7	5	4
Current assets	53	46	29	5
Current liabilities	(231)	(134)	(106)	(71)
Net current liabilities	(178)	(88)	(77)	(66)
	(75)	(81)	(72)	(62)
<b>Financed by:</b>				
Share capital	-*	220	220	220
Accumulated losses	(126)	(301)	(292)	(282)
Deficit in shareholders' funds	(126)	(81)	(72)	(62)
Borrowing	51	-	-	-
	(75)	(81)	(72)	(62)
No. of ordinary shares of SGD1.00 each ('000)	-*	220	220	220
* denotes 2				
Net tangible liabilities ("NTL") per ordinary share (RM)	(63,000)	(0.37)	(0.33)	(0.28)
Exchange rate used in translation of balance sheet – 1 SGD	2.20	2.20	2.20	2.20



### 3 Proforma consolidated statement of assets and liabilities

The following proforma consolidated statement of assets and liabilities of the Mexter Group, which is prepared solely for illustration purposes, is based on the audited financial statements of Mexter, MMSB, Mexter MSC, DC Power, CIE and MSPL as at 30 September 2004 and on the assumption that the restructuring scheme of the Mexter Group as stated in Paragraphs 1.2 had been effected on 30 September 2004 and should be read in conjunction with the notes thereon.

	Note	Proforma Group RM'000
<b>Property, plant and equipment</b>	3.2	1,518
<b>Investment in associate</b>	3.3	744
<b>Intangible assets</b>	3.4	501
		2,763
<b>Current assets</b>		
Inventories	3.5	1,331
Trade and other receivables	3.6	5,218
Tax recoverable	3.6	114
Cash and cash equivalents	3.7	1,433
		8,096
<b>Current liabilities</b>		
Trade and other payables	3.8	1,789
Borrowings	3.9	60
Dividend payable		2,280
		4,129
<b>Net current assets</b>		3,967
		6,730
<b>Financed by:</b>		
<b>Capital and reserves</b>		
Share capital	3.10	5,461
Unappropriated profits	3.11	988
		6,449
<b>Long term and deferred liabilities</b>		
Borrowings	3.9	159
Deferred tax liabilities	3.12	122
		6,730



### **3 Notes to the proforma statement of assets and liabilities**

#### **3.1 Summary of significant accounting policies**

The following accounting policies are adopted by the Mexter Group and are consistent with those accounting policies adopted by MMSB in previous years, save for the adoption of the merger method of accounting for the acquisition of MMSB as the basis of consolidation for the purpose of the proforma statement of assets and liabilities.

**(a) Basis of accounting**

The financial statements of the Group and of the Company are prepared on the historical cost basis and in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

**(b) Basis of consolidation**

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that the date control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting except for MMSB, which is consolidated using the merger method of accounting.

A subsidiary is excluded from consolidation when either control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions, which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or negative goodwill as appropriate.

Under the merger method of accounting, the results of the subsidiaries are presented as if the companies had been combined throughout the current and previous financial years. The difference between the cost of acquisition and the nominal value of the share capital and reserves of the merged subsidiaries is taken to merger reserve or adjusted against any suitable reserve in the case of debit differences.





### 3.1 Summary of significant accounting policies (“continued”)

#### (b) Basis of consolidation (continue)

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

#### (c) Property, plant and equipment

Freehold land is stated at cost. All other property, plant and equipment are stated at cost less accumulated depreciation.

Property, plant and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment losses, if any.

##### *Depreciation*

Freehold land is not amortised. The straight-line method is used to write off the cost of the other assets over the term of their estimated useful lives at the following principal annual rates:

Building	2%
Furniture and fittings	8%
Plant and equipment	10 - 12%
Office equipment and renovation	12%
Motor vehicles	16%

#### (d) Investments

Long term investments in subsidiaries and associate are stated at cost in the Company, less impairment loss where applicable.

#### (e) Associate

An associate is an enterprise in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the total recognised gains and losses of associate on an equity accounted basis from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Unrealised profits arising on transactions between the Group and its associate, which are included in the carrying amount of the related assets and liabilities, are eliminated partially to the extent of the Group's interests in the associate. Unrealised losses on such transactions are also eliminated partially unless cost cannot be recovered.



### 3.1 Summary of significant accounting policies (“continued”)

#### (f) Intangible assets

##### *Research and development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Company has sufficient resources to complete development. The expenditure capitalised includes the direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred.

Capitalised development expenditure is amortised and recognised as an expense on a systematic basis so as to reflect the pattern in which the related economic benefits are recognised over five (5) years.

#### (g) Inventories

Inventories, which consist of computer and electronic parts, are stated at the lower of cost and net realisable value with first-in-first-out basis being the main basis for cost. Cost comprises actual purchase price plus incidentals in bringing the inventories to their present location and condition.

#### (h) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

#### (i) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investment, which have an insignificant risk of changes in value.

#### (j) Liabilities

Trade and other payables and borrowings are stated at cost.

#### (k) Accounting for hire purchase

Assets acquired under hire purchase arrangements are capitalised at their purchase costs and are depreciated on the same basis as owned assets. The total amount payable under hire purchase agreements is shown under hire purchase liabilities.



### 3.1 Summary of significant accounting policies (“continued”)

#### (l) Impairment

The carrying amount of assets, other than inventories and financial assets (financial assets in this context exclude investments in subsidiaries and associate) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in the income statement.

#### (m) Employee benefits

##### (i) Short term employee benefits

Wages, salaries and bonuses are recognised as expenses in the period in which the associated services are rendered by employees of the Group. Short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

##### (ii) Defined contributions plan

Obligation for contributions to defined contribution plan are recognised as an expense in the income statement as incurred.



### 3.1 Summary of significant accounting policies (“continued”)

#### (n) Income tax

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

#### (o) Foreign currency

##### (i) *Foreign currency transactions*

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

##### (ii) *Financial statements of foreign operations*

The Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Ringgit Malaysia at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Ringgit Malaysia at average exchange rates applicable throughout the year. Foreign exchange differences arising on translation are recognised directly in equity.



### 3.1 Summary of significant accounting policies (“continued”)

#### (o) Foreign currency (continue)

The closing rates used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations are as follows:

USD 1	RM3.80
SGD 1	RM2.20

#### (p) Revenue

##### (i) Goods sold and services rendered

Revenue from the sale of goods is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to services performed to date as a percentage of total services to be performed. Where the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

##### (ii) Interest income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

#### (q) Financing cost

All interest and other costs incurred in connection with borrowings are expensed as incurred. The interest component of hire purchase payments is recognised in the income statement so as to give a constant periodic rate of interest on the outstanding liability at the end of each accounting period.



## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
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### 3.2 Property, plant and equipment

#### Proforma Group

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
<b>Cost</b>			
Freehold land	19	-	19
Building	398	57	341
Furniture and fittings	125	38	87
Plant and equipment	332	16	316
Office equipment and renovation	488	215	273
Motor vehicles	746	264	482
	<u>2,108</u>	<u>590</u>	<u>1,518</u>

- 3.2.1 Included in the net book value of property, plant and equipment are motor vehicles of RM482,000, which are acquired under hire purchase arrangements.

### 3.3 Investment in associate

	Proforma Group RM'000
Unquoted shares – at cost	<u>744</u>

The associate, which was incorporated in Malaysia, is as follows:

Name of associate	Principal activity	Effective ownership interest 30.9.2004 %
Advantech Control (M) Sdn. Bhd.	Trading of computers and its related products	45

## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
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### 3.4 Intangible assets

	Proforma Group Software Development Costs RM'000
Cost - Internally developed	589
Amortisation	(88)
<i>Net book value</i>	-----
At 30 September 2004	501 =====

### 3.5 Inventories

	Proforma Group RM'000
Computer and electronic parts	1,331 =====

### 3.6 Trade and other receivables and tax recoverable

	Proforma Group RM'000
Trade receivables	4,522
Other receivables, deposits and prepayments	462
Amount due from associate – trade	234
	-----
	5,218 =====
Tax recoverable	114 =====

#### *Tax Recoverable*

Tax recoverable represents excess taxes paid, which are refundable and are subject to agreement by the Inland Revenue Board.

## 13. ACCOUNTANTS' REPORT (Cont'd)



*Mexter Technology Berhad*  
Accountants' Report

### 3.7 Cash and cash equivalents

	<b>Proforma Group RM'000</b>
Deposits placed with licensed banks	800
Cash and bank balances	633
	<hr/>
At 30 September 2004	1,433
	<hr/> <hr/>

### 3.8 Trade and other payables

	<b>Proforma Group RM'000</b>
Trade payables	1,236
Other payables and accrued expenses	350
Amount due to associate – trade	203
Amount due to subsidiary	-
	<hr/>
	1,789
	<hr/> <hr/>

*Amount due to subsidiary*

Amount due to subsidiary is in respect of advances, which are unsecured, interest free and have no fixed terms of repayment.



## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
Accountants' Report

### 3.9 Borrowings

	<b>Proforma Group RM'000</b>
Current	
Hire purchase liabilities	60
	<u>60</u>
Non-current	
Hire purchase liabilities	159
	<u>159</u>

#### *Hire purchase liabilities*

Hire purchase liabilities are subject to effective interest at 6.80% per annum.

Hire purchase liabilities are payable as follows:

	<b>Payment 2004 RM'000</b>	<b>Interest 2004 RM'000</b>	<b>Principal 2004 RM'000</b>
<b>Proforma Group</b>			
Less than one year	72	12	60
Between one and five years	187	28	159
	<u>259</u>	<u>40</u>	<u>219</u>
	=====	=====	=====

### 3.10 Share capital

	<b>Proforma Group RM'000</b>
Ordinary shares of RM0.10 each:	
Authorised	
Balance at 30 September 2004	100
Created subsequent to period end	24,900
	<u>25,000</u>
Issued and fully paid	
As at 30 September 2004	*.
Acquisition of MMSB	5,461
	<u>5,461</u>
	=====

\* denotes RM2

## 13. ACCOUNTANTS' REPORT (Cont'd)



Mexter Technology Berhad  
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### 3.11 Proforma unappropriated profits

The proforma unappropriated profits are arrived at after netting off merger deficit of RM5,111,000.

### 3.12 Deferred tax liabilities

	<b>Proforma Group RM'000</b>
Deferred tax liabilities	122
	=====
The recognised deferred tax liabilities are as follows:	
Property, plant and equipment – capital allowances	88
Software development expenditure	34
	-----
	122
	=====

No deferred tax assets have been recognised for the following items:

	<b>Proforma Group RM'000</b>
Property, plant and equipment - capital allowances	(7)
Unabsorbed capital allowances	17
Unutilised tax losses	220
	-----
	230
	=====

The unutilised tax losses and unabsorbed capital allowances of the subsidiaries do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the subsidiaries can utilise the benefits.



### 3.13 Proforma consolidated cash flow statement

The proforma consolidated cash flow statement of the Proforma Group, prepared for illustrative purpose is based on the audited financial statements of Mexter, MMSB, Mexter MSC, DC Power, CIE and MSPL and on the assumption that the restructuring scheme of the Mexter Group as stated in Paragraphs 1.2 have been effected on 30 September 2004.

	<b>Proforma Group RM'000</b>
<b>Cash flows from operating activities</b>	
Profit before taxation	3,390
Adjustments for:	
Amortisation of software development costs	88
Depreciation	148
Interest expense	36
Interest income	(1)
Gain on disposal of property, plant and equipment	(15)
Share of profit in associate	(124)
	<hr/>
Operating profit before working capital changes	3,522
(Increase)/Decrease in working capital	
Inventories	(829)
Trade and other receivables	(4)
Trade and other payables	(1,386)
	<hr/>
Cash generated from operating activities	1,303
Income taxes paid	(55)
Income taxes refunded	85
Software development costs paid	(389)
	<hr/>
<b>Net cash generated from operating activities</b>	<b>944</b>
	<hr/>



### 3.13 Proforma consolidated cash flow statement ("continued")

	<b>Proforma Group RM'000</b>
<b>Cash flows from investing activities</b>	
Interest received	1
Proceeds from disposal of property, plant and equipment	15
Purchase of property, plant and equipment	(444)
	<hr/>
<b>Net cash used in investing activities</b>	<b>(428)</b>
	<hr/>
<b>Cash flows from financing activities</b>	
Share issue expenses	(311)
Repayments from Directors	208
Repayments of term loan	(96)
Repayments of hire purchase liabilities	(230)
Interest paid	(36)
	<hr/>
<b>Net cash used in financing activities</b>	<b>(465)</b>
	<hr/>
<b>Net increase in cash and cash equivalents</b>	<b>51</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,382</b>
	<hr/>
<b>Cash and cash equivalents at end of year</b>	<b>(i) 1,433</b>
	<hr/> <hr/>

#### Notes to Proforma Consolidated Cash Flow Statement

(i) Cash and cash equivalents

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	<b>Proforma Group RM'000</b>
Cash and bank balances	633
Deposits placed with licensed banks	800
	<hr/>
	<b>1,433</b>
	<hr/> <hr/>

## 13. ACCOUNTANTS' REPORT (Cont'd)



*Mexter Technology Berhad*  
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**3.14 Proforma net tangible assets cover**

Based on the statement of assets and liabilities of the Proforma Group as at 30 September 2004, the net tangible assets cover will be as follows:-

	<b>Proforma Group</b> <b>RM'000</b>
Net tangible assets as per statement of assets and liabilities	5,948 =====
Number of ordinary shares of RM0.10 each assumed in issue ('000)	54,610 =====
Net tangible assets per ordinary share of RM0.10 each (RM)	0.11 =====

**3.15 Event subsequent to balance sheet date of 30 September 2004**

Based on the audited financial statements for the period ended 30 September 2004, no events have arisen subsequent to the balance sheet date, which requires disclosure in this report other than the listing scheme as stated in paragraph 1.2.3.

**3.16 Financial statements**

No audited financial statements have been made up in respect of any period subsequent to 30 September 2004.

Yours faithfully

**KPMG**  
Firm Number: AF 0758  
Chartered Accountants

**Tang Seng Choon**  
Partner  
Approval Number: 2011/12/05 (J)

**F R O S T  S U L L I V A N**

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**The Board of Directors**

**Mexter Technology Berhad.**

**Suite 17.06 (B)**

**17<sup>th</sup> Floor, Menara MAA**

**No.12, Jalan Dewan Bahasa**

**50460 Kuala Lumpur.**

Dear Sirs:

**Executive Summary of the Independent Market Research Report on the  
Strategic Insight of the Manufacturing Process Management Market in Malaysia and China**

The purposes of the Summary IMR of Mexter Technology Bhd. is prepared by Frost & Sullivan (M) Sdn Bhd for inclusion in the Prospectus of Mexter Technology Bhd. in relation to the proposed listing of and quotation for the entire issued and paid-up share capital of Mexter Technology Bhd. on the Mesdaq Market of the Bursa Malaysia Securities Berhad.

**Industrial Automation**

The word "automation" in its simplest form but yet meaningful is, "mechanics plus intelligence." The basic aim of automation is to liberate the worker from repetitive manual activities which require little thought, will and decision. Human activity can be performed better and faster with uniform quality and with endurance when provided with the suitable machines or equipment. As the name implies, industrial automation encompasses a wide variety of products used in industrial applications. It covers advanced control and management software, systems for the control and monitoring of continuous, batch and hybrid operations, field instrumentation, programmable controllers, communications systems for industrial control, equipment and systems, sensors, process control instrumentation and PC-based control systems. The purpose of industrial automation is to enhance a plant's processes and products so that it can successfully carry out its business strategies and achieve its objectives.

*New York  
Tokyo*

*Silicon Valley  
Mumbai*

*Toronto  
Chennai*

*San Antonio  
Singapore*

*London  
Kuala Lumpur*

*Frankfurt  
Beijing*

*Paris  
Shanghai*

*Oxford  
Sydney*

14. EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON *(Cont'd)*

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**E-Manufacturing**

The advent of the Internet has also given rise to e-manufacturing, which is a solution combining the technologies from industrial automation, information technology and the Internet itself. E-manufacturing assists the OEMs to manage global supply chains, collaborating with both subcontractors and suppliers as one virtual enterprise. It also provides a transparent view of the health of the factory floor assets, helping to streamline supply and reduce costs. The OEMs can transfer manufacturing information to their contract manufacturers and suppliers, and in the process, interact as one extended enterprise. Ultimately, it creates a highly integrated and an extremely flexible system that provides a complete overview of the entire enterprise. One of the primary objectives of e-manufacturing is to fulfill the orders from consumers or business partners through the real-time execution of product design, production planning and scheduling, manufacturing process and control, and distribution and delivery, leveraging on Internet technologies.

**Manufacturing Process Management**

Manufacturing process management is a subset of e-manufacturing technology, which by itself falls under the realm of industrial automation. As the market for manufacturing process management is still at the infancy stage, the growth rates are anticipated to be relatively high. At the global level, due mainly to the high rates of automation in the western countries, the growth of the market is projected to be relatively strong. China, which is rapidly becoming the manufacturing workshop of the world, is also expected to experience relatively strong growth. In Malaysia, the need to climb up the value added chain and the shortage of skilled labor are among the factors anticipated to drive the market.

Manufacturing process management software is designed to help manufacturers reduce costs and improves revenue. The system can be considered as a tool in supply chain management. This is used to give automated intelligence to a network of vendors, suppliers, manufacturers, distributors, retailers and a host of other business partners. The goal is for each partner in the supply chain to conduct business with the latest and best information from everyone else in the chain, guiding supply and demand into a more perfect balance. The effective management of the supply chain enables a company to move a product from the point of origin to that of consumption in the least amount of time at the smallest cost. The EMS (electronics manufacturing services) company or contract manufacturer can even allow the OEM (original equipment manufacturer) to view real time data on production of their products. The system allows secure, password-driven login rights for managed customer access. Hence, this illustrates the importance of the manufacturing process management system.

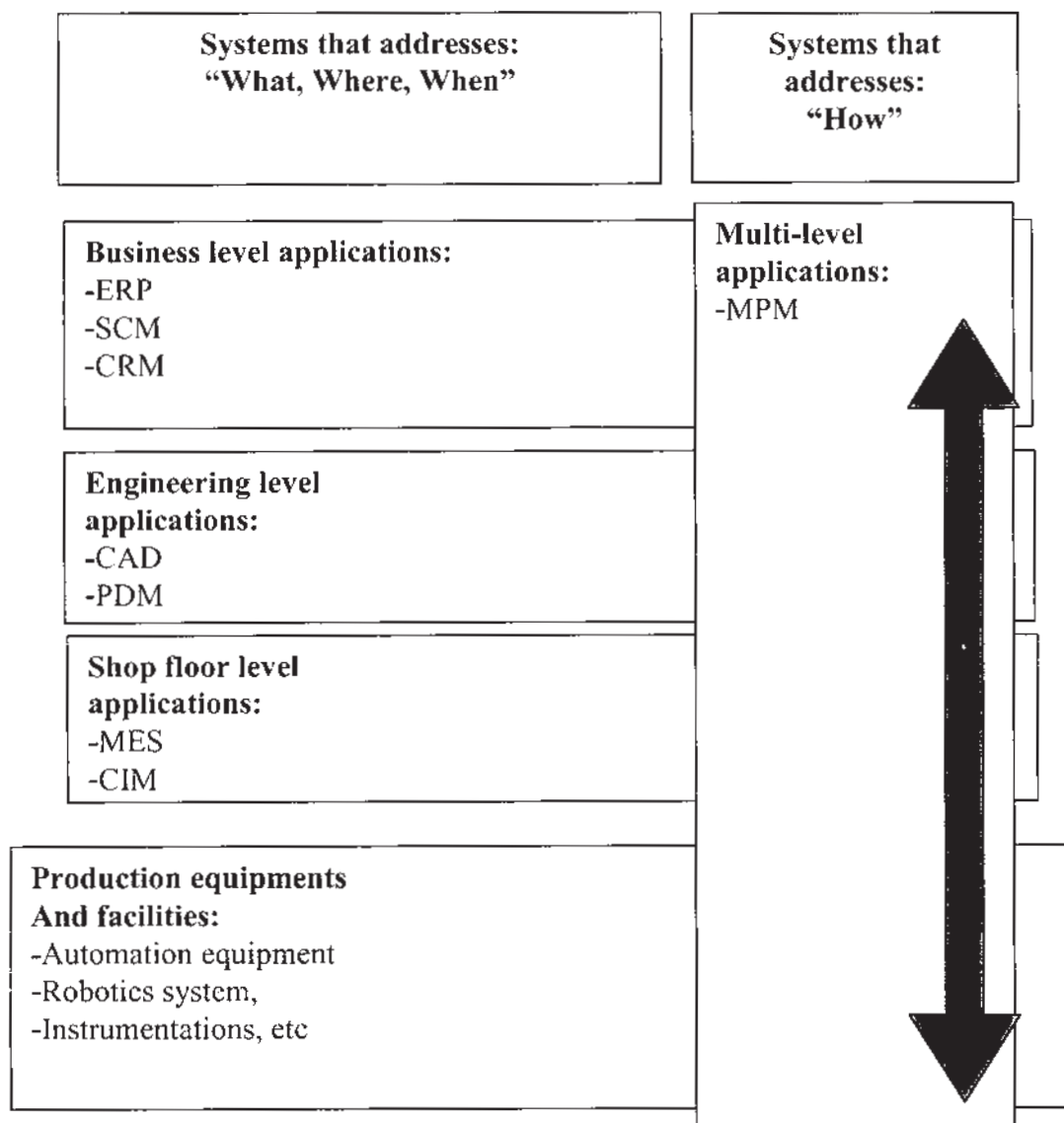
Perhaps the most useful feature of a manufacturing processing management system is its ability to perform traceability tasks, tracing a product serial number down to the component part used. Errors due to faulty processes can be detected and corrected much earlier in the process. The data-centric system can efficiently link all the attributes like lot code, day code, vendor, customer part number and the unique part number of the raw



14. EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON (Cont'd)

material or component part used in the assembly process to the main product's serial number. The information is recorded in a plant-wide central server which could be accessed via a web portal equipped with a search engine. In addition, it can also perform genealogy tasks, tracing a component lot to determine the products it populated. Thus, the magnitude of a product recall can be in the order of a number of units, rather than hundreds or thousands. Manufacturing process management vis-à-vis other software applications in a manufacturing enterprise is represented in the chart below.

Manufacturing Process Management: Cross-functional applications that focus on "how"



Source: Frost & Sullivan



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14. EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON *(Cont'd)*

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Key:

MPM: Manufacturing Process Management

ERP: Enterprise Resource Planning

SCM: Supply Chain Management

CRM: Customer Relationship Management

CAD: Computer Aided Manufacturing

PDM: Product Data Management

MES: Manufacturing Execution System

CIM: Computer Integrated Manufacturing

The benefits of manufacturing process management are as follows:

- Reduces time to market
- Reduces human errors
- Reduces operating costs
- Improves efficiency
- Interactive collaboration of engineers, designers and shop floor personnel
- Optimizes production execution
- Optimizes stock audit
- Reduce inventory levels and cost of capital
- Provides full overview of machine performance
- Reduces down time
- Improves production management
- Verifies that the correct component parts are used
- Improves quality control
- Reduces cost of product recall by batch
- Real-time shop floor data (through both Internet and Intranet)
- Traceability of raw materials or component parts on the production line
- Provide real time management on work in progress and production status for supply chain management

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14. EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON *(Cont'd)*


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**Malaysia**

The main market drivers are:

- Shortage of skilled labor spurs consumption
- Improvements in electronics industry boost demand
- Emphasis on productivity in the factory floor inspires demand
- Globalization and outsourcing promote demand
- Ease of upgrades bolsters demand
- Necessity to climb up the value added chain stimulates demand

The main market restraints are:

- Slow adoption of latest production technologies by manufacturing companies blunts demand
- Diversification of foreign direct investments to China from Malaysia constraints demand
- Global overcapacity in the automotive assembly industry checks demand

**Manufacturing Process Management Market: Revenues, 2000-2008**

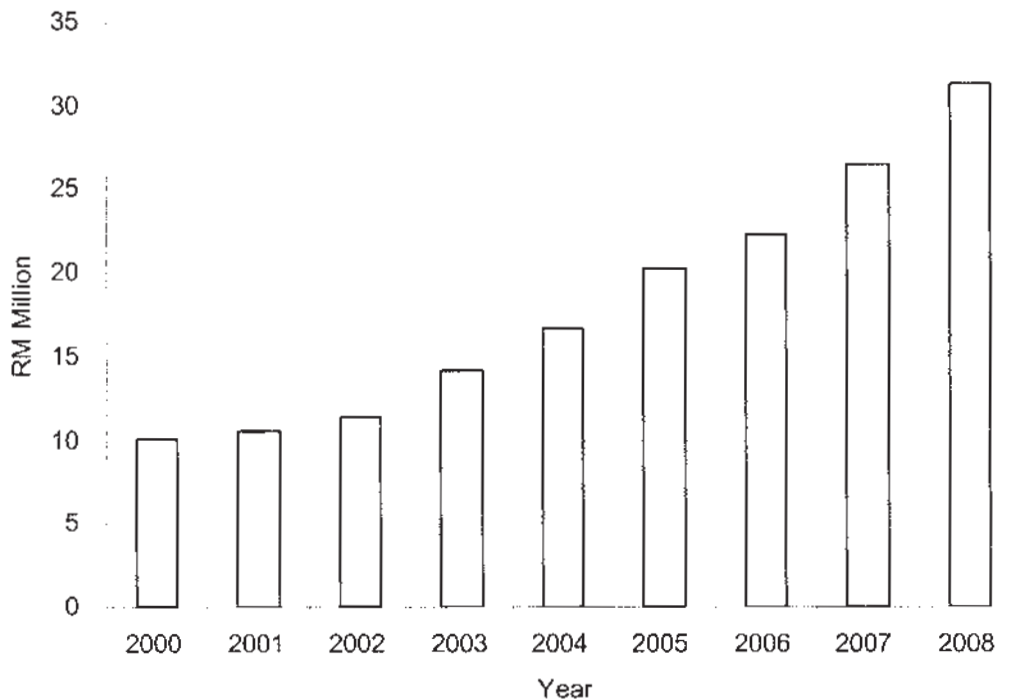
<b>Year</b>	<b>Revenues (RM Million)</b>	<b>Revenue Growth Rate (%)</b>
2000	10.0	-
2001	10.5	5.0
2002	11.4	8.0
2003	14.2	25.0
2004	16.6	17.0
2005	20.3	22.0
2006	22.3	10.0
2007	26.5	19.0
2008	31.3	18.0
Compound Annual Growth Rate (2003-2008):	17.1	

*Note: All figures are rounded; the base year is 2003.*

*Source: Frost & Sullivan*

## 14. EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON (Cont'd)

Manufacturing Process Management: Revenues, 2000-2008



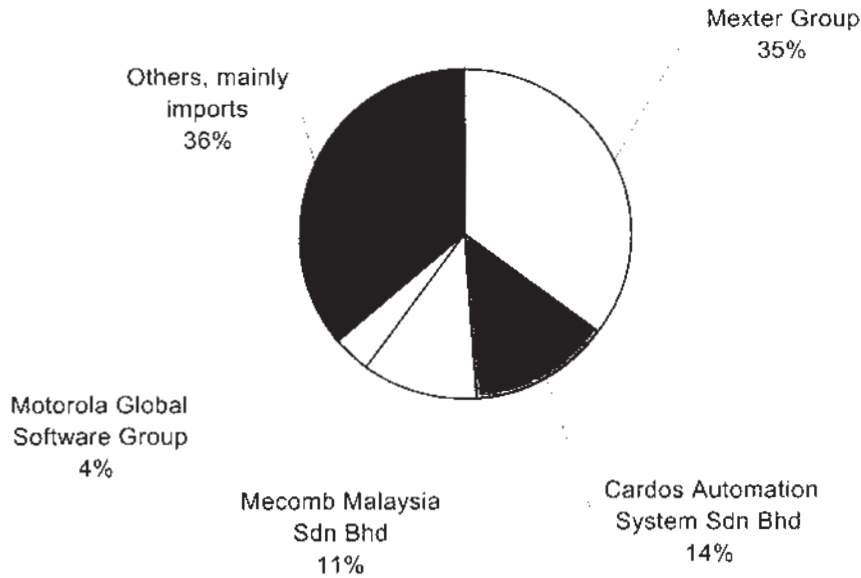
Source: Frost & Sullivan

The market for manufacturing process management systems increased moderately in 2001 and 2002. This was principally due to the sluggishness in the electronics end-user industry which was facing overcapacity and weak demand during that period. Although the automotive assembly industry is another end-user industry, the electronics end-user industry was the mainstay of the market, and is projected to do so during the forecast period.

The industry in Malaysia is still at the infancy stage, with abundant potential opportunities, as it is still untapped. This is due to the relatively large number of manufacturing establishments that have yet to install industrial automation equipment, including manufacturing process management systems. This applies especially to the SMIs that lack both finances and awareness. Some of the MNCs develop and implement their own in-house manufacturing process management systems in their home countries, and then imported the systems into Malaysia when they establish their manufacturing facilities here. Revenues in the manufacturing process management market were estimated at around RM16.6 million in 2004, and are expected to increase at a CAGR of 17.1 percent during the forecast period, to reach RM31.3 million in 2008.

14. EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON (Cont'd)

Company Market Share by Revenues, 2004 (estimated)



Source: Frost & Sullivan

There was a heavy market concentration of 60 percent among the top three suppliers of manufacturing process management systems in the Malaysian market in 2004. In terms of revenues, Mexter Group was estimated to account for approximately 35 percent of the market in 2004, followed by Cardos Automation System Sdn Bhd (14 percent) and Mecomb Malaysia Sdn Bhd (11 percent).

Mecomb Malaysia Sdn Bhd, a division of the Sime Darby Group, is the manufacturer's representative for manufacturing process management systems from the Fuji Machine Manufacturing Company Limited. Motorola Global Software Group accounted for about 4 percent of the market. The remaining 36 percent is estimated to have come mainly from imports, including turnkey solutions. In this case, the contracts are normally negotiated in the home countries of the multinationals before installations take place in Malaysia. Lastly, some multinationals also do install their own in-house manufacturing process management solutions.

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**14. EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON (Cont'd)**


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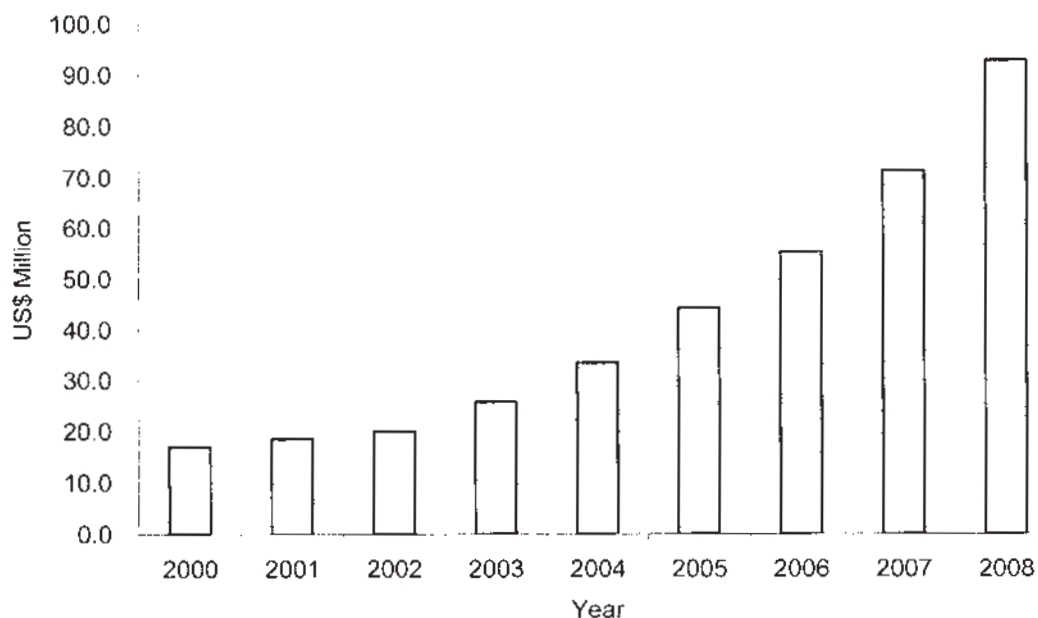
China

**Manufacturing Process Management Market: Revenues, 2000-2008**

<b>Year</b>	<b>Revenues (US\$ Million)</b>	<b>Revenue Growth Rate (%)</b>
2000	17.0	-
2001	18.5	9.0
2002	20.0	8.0
2003	25.8	29.0
2004	33.5	30.0
2005	44.3	32.0
2006	55.3	25.0
2007	71.4	29.0
2008	92.8	30.0
Compound Annual Growth Rate (2003-2008):	29.2	

Note: All figures are rounded; the base year is 2003.

Source: Frost & Sullivan

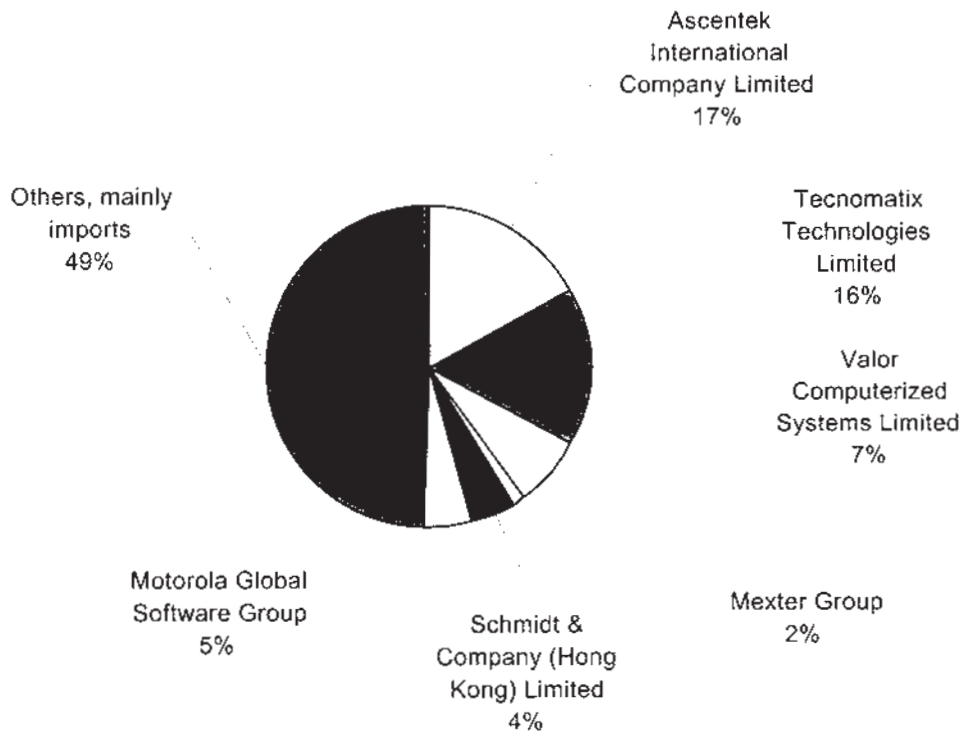
**Manufacturing Process Management: Revenues, 2000-2008**

Source: Frost & Sullivan

14. EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON (Cont'd)

Looking at the manufacturing process management market in China as a whole, it is still at the infancy stage. Hence, the potential growth rates are huge. Revenues in the manufacturing process management market are anticipated to increase strongly, from around US\$33.5 million in 2004 to reach about US\$92.8 million in 2008, registering a CAGR of 29.2 percent during the forecast period. This is due to an expected influx of FDI and the associated inflow of management concepts and technologies.

Company Market Share by Revenues, 2004 (estimated)



Source: Frost & Sullivan

The market concentration of the top three competitors was 40 percent in 2004. The top company in the market was Ascentek International Company Limited, commanding a market share of around 17 percent. This was followed by Tecnomatix Technologies Limited, with a market share of around 16 percent and Valor Computerized Systems Limited, with a market share of about 7 percent. Ascentek International Company Limited is the industrial distributor for Bartector while Valor Computerized Systems Limited is the industrial distributor for TraceXpert. A manufacturer's representative is a trading company that represents and sells the products of several manufacturers. Meanwhile, an industrial distributor only carries the products of a particular manufacturer.

14. EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON *(Cont'd)*

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Other main market participants include Mexter Group (1.5 percent), Schmidt & Company (Hong Kong) Limited (4 percent) and Motorola Global Software Group (5 percent). The remaining 49.5 percent is accounted by other suppliers, which are mainly imports. Mexter Group is in the process of appointing Shenzhen Top Quality Industry Limited as its manufacturer's representative in China in 2004. Shenzhen Top Quality Industry Limited is a company involved in distributing a wide range of industrial automation products in China.

Most of the bigger market participants have offices scattered across the coastal areas of China, where there is a heavy concentration of electronics and automotive assembly industries. These places include the Pearl River Delta, Shanghai and Tientsin. Many of the foreign market participants have simply followed the multinationals when the latter establish their manufacturing operations in China.

There are also many Taiwanese suppliers present. However, they do not appear to be big market players due to issues of quality among the customers. Hence, they cater mainly to the smaller companies, where the pricing factor comes into play. Imported system comprises a big portion of the market. They appear to be catering for the automotive assembly market, in the form of turnkey solutions. In this case, most of the negotiations and contracts are conducted at the countries where the head offices of the MNCs are located. Lastly, it must also be noted that many vendors are also involved in a vast range of other industrial automation and e-manufacturing products, besides manufacturing process management systems.

### **Outlook**

The trend in outsourcing is anticipated to grow further, which allows the OEMs the dual benefits of reducing costs while simultaneously devoting more resources to various strategic initiatives like marketing, brand management and R & D. In an industry characterized by low margins, short product life cycles, increasing commoditization, increasing cost differentiation and low product differentiation, the EMS companies are under extreme market pressure. One of the ways to compete more effectively in the global market place is through the application of more sophisticated industrial automation tools, including the installation of manufacturing process management systems. They are mission-critical to the production processes in a factory. The same situation applies to the automotive assembly industry, which is currently characterized by global excess capacity and mergers and acquisitions. Price pressures in the market place are translating into the need for more efficiency in the work process in the factory floor, so as to, among others, eliminate costly recalls.

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14. EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON *(Cont'd)*

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Frost & Sullivan has prepared this report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this report presents a true and fair view of the industry within the limitations of among others, secondary statistics and primary research. Our research has been conducted with an "overall industry" perspective and may not necessarily reflect the performance of individual companies in this industry. We are not responsible for the decisions and / or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies.

Yours Sincerely



Sanjay Singh  
Director  
Industrial Practice



14. EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON (Cont'd)

FROST & SULLIVAN

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15 MAR 2005

To:

The Board of Directors  
Mexter Technology Berhad  
Suite 17.06(B)  
17<sup>th</sup> Floor, Menara MAA  
No. 12, Jalan Dewan Bahasa  
50460 Kuala Lumpur

Re: Independent Market Research Report on the Manufacturing Process Management Industry

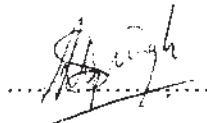
This executive summary is prepared for inclusion in the prospectus of Mexter Technology Berhad to be dated ~~23 MAR 2005~~ in relation to its listing on the Mesdaq Market of the Bursa Malaysia Securities Berhad. This research is undertaken with the purpose of providing an analysis of the market position of Mexter Technology Berhad within the manufacturing process management industry in both Malaysia and China.

The information provided in this Prospectus with reference to our name is principally the extractions from our research report which was undertaken through both primary and secondary sources. Primary research is provided to gain an in-depth understanding of the current industry profile and to provide an overall picture of the market performance and trends.

Secondary research includes a review of the in-house database of Frost and Sullivan, the Eighth Malaysia Plan 2001-2005, the Malaysia International Trade and Industry Report 2002, the Monthly Statistical Bulletin, Bank Negara Malaysia Annual Report 2003, the Monthly Manufacturing Statistics and others.

The research was conducted and completed in March 2004, and updated in February 2005. Findings in this study may be used in the listing prospectus with consent from Frost and Sullivan.

Yours faithfully  
For and behalf of  
Frost and Sullivan (M) Sdn Bhd



Sanjay Singh  
Director